TAB 31

Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 115

Accounting for Certain Investments in Debt and Equity Securities

Statement of Financial Accounting Standards No. 115
Accounting for Certain Investments in Debt and Equity Securities

STATUS

Issued: May 1993

Effective Date: For fiscal years beginning after December 15, 1993

Affects: Amends ARB 43, Chapter 3A, paragraph 4(f)
Amends APB 18, paragraph 19(l)
Supersedes FAS 12
Replaces FAS 60, paragraphs 45 and 46
Amends FAS 60, paragraphs 50 and 51
Deletes FAS 60, footnote 7
Amends FAS 65, paragraphs 4 through 8, 9(a), 9(c), 12, 17, 28, and 29
Amends FAS 80, paragraph 5
Amends FAS 91, paragraphs 3 and 27(a)
Amends FAS 97, paragraph 28
Amends FAS 102, paragraph 8 and footnote 4
Amends FAS 109, paragraph 36(b)
Supersedes FIN 11
Supersedes FIN 12
Supersedes FIN 13
Supersedes FIN 16
Amends FIN 40, paragraphs 4 and 5
Amends FTB 79-19, paragraph 1
Replaces FTB 79-19, paragraph 6
Amends FTB 85-1, paragraph 3

Affected by: Paragraph 3(a) amended by FAS 157, paragraph E15(a)
Paragraph 4 amended by FAS 124, paragraph 110; FAS 133, paragraph 534(a); and FAS 159, paragraph C5(a)
Paragraph 7 amended by FAS 125, paragraph 233; FAS 135, paragraph 4(t); and FAS 140, paragraph 362
Paragraph 8(c) amended by FAS 144, paragraph C13
Paragraph 12(a) amended by FAS 134, paragraph 5
Paragraph 13 amended by FAS 130, paragraph 33(a), and FAS 133, paragraph 534(b)
Paragraph 15(b) amended by FAS 133, paragraph 534(c)
Paragraphs 15(c) and 15(d) amended by FAS 130, paragraphs 33(b) and 33(c), respectively
Paragraph 16 amended by FAS 130, paragraph 33(d), and FAS 133, paragraph 534(d)
Paragraph 17 replaced by FAS 135, paragraph 4(t), and amended by FAS 159, paragraph C5(b)
Paragraph 18 amended by FAS 159, paragraph C5(c)
Paragraphs 19 through 22 amended by FAS 133, paragraphs 534(e) through 534(h), respectively
Paragraph 115 amended by FAS 133, paragraph 534(i)
Paragraph 128(a) amended by FAS 134, paragraph 4
Paragraph 137 amended by FAS 133, paragraph 534(j), and FAS 157, paragraph E15(b)
Footnote 2 replaced by FAS 157, paragraph E15(a)
Footnote 4 amended by FAS 135, paragraph 5(c); FAS 145, paragraph 9(h); and FSP FAS 115-1/124-1, paragraph B2

Other Interpretive Pronouncement: FTB 94-1

Other Interpretive Releases: FASB Special Report, *A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities: Questions and Answers* (in *Current Text* Section I80)
FASB Staff Position FAS 115-1/124-1

AICPA Accounting Standards Executive Committee (AcSEC)

Related Pronouncements: SOP 78-9
SOP 90-3
SOP 93-1
SOP 01-6
PB 4
PB 5
PB 6

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: EITF Issues No. 85-25, 86-40, 89-18, and 91-5

Interpreted by: Paragraph 3 interpreted by EITF Topic No. D-39
Paragraph 7 interpreted by EITF Issue No. 96-10 and Topic No. D-39
Paragraph 9 interpreted by EITF Topic No. D-51
Paragraph 12 interpreted by EITF Issue No. 98-13
Paragraph 13 interpreted by EITF Topic No. D-41

Related Issues: EITF Issues No. 84-20, 85-23, 85-39, 94-8, 96-11, 96-12, 96-15, 97-7, 97-14, 98-2, 98-5, 98-15, 99-4, 99-20, 00-8, 00-18, 00-27, 01-1, and 02-2 and Topics No. D-11, D-40, and D-74

SUMMARY

This Statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Those investments are to be classified in three categories and accounted for as follows:

- Debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as *held-to-maturity securities* and reported at amortized cost.
- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as *trading securities* and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as *available-for-sale securities* and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

This Statement does not apply to unsecuritized loans. However, after mortgage loans are converted to mortgage-backed securities, they are subject to its provisions. This Statement supersedes FASB Statement No. 12, *Accounting for Certain Marketable Securities,* and related Interpretations and amends FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities,* to eliminate mortgage-backed securities from its scope.

This Statement is effective for fiscal years beginning after December 15, 1993. It is to be initially applied as of the beginning of an enterprise's fiscal year and cannot be applied retroactively to prior years' financial statements. However, an enterprise may elect to initially apply this Statement as of the end of an earlier fiscal year for which annual financial statements have not previously been issued.

causing an enterprise to dispose of a held-to-maturity security

e. A significant increase by the regulator in the industry's capital requirements that causes the enterprise to downsize by selling held-to-maturity securities

f. A significant increase in the risk weights of debt securities used for regulatory risk-based capital purposes.

In addition to the foregoing changes in circumstances, other events that are isolated, nonrecurring, and unusual for the reporting enterprise that could not have been reasonably anticipated may cause the enterprise to sell or transfer a held-to-maturity security without necessarily calling into question its intent to hold other debt securities to maturity. All sales and transfers of held-to-maturity securities shall be disclosed pursuant to paragraph 22.

9. An enterprise shall not classify a debt security as held-to-maturity if the enterprise has the intent to hold the security for only an indefinite period. Consequently, a debt security should not, for example, be classified as held-to-maturity if the enterprise anticipates that the security would be available to be sold in response to:

a. Changes in market interest rates and related changes in the security's prepayment risk
b. Needs for liquidity (for example, due to the withdrawal of deposits, increased demand for loans, surrender of insurance policies, or payment of insurance claims)
c. Changes in the availability of and the yield on alternative investments
d. Changes in funding sources and terms
e. Changes in foreign currency risk.

10. Although its asset-liability management may encompass consideration of the maturity and repricing characteristics of all investments in debt securities, an enterprise may decide that it can accomplish the necessary adjustments under its asset-liability management without having all of its debt securities available for disposition. In that case, the enterprise may choose to designate certain debt securities as unavailable to be sold to accomplish those ongoing adjustments deemed necessary under its asset-liability management, thereby enabling those debt securities to be accounted for at amortized cost on the basis of a positive intent and ability to hold them to maturity.

11. Sales of debt securities that meet either of the following two conditions may be considered as maturities for purposes of the classification of securities under paragraphs 7 and 12 and the disclosure requirements under paragraph 22:

a. The sale of a security occurs near enough to its maturity date (or call date if exercise of the call is probable) that interest rate risk is substantially eliminated as a pricing factor. That is, the date of sale is so near the maturity or call date (for example, within three months) that changes in market interest rates would not have a significant effect on the security's fair value.
b. The sale of a security occurs after the enterprise has already collected a substantial portion (at least 85 percent) of the principal outstanding at acquisition due either to prepayments on the debt security or to scheduled payments on a debt security payable in equal installments (both principal and interest) over its term. For variable-rate securities, the scheduled payments need not be equal.

Trading Securities and Available-for-Sale Securities

12. Investments in debt securities that are not classified as held-to-maturity and equity securities that have readily determinable fair values shall be classified in one of the following categories and measured at fair value in the statement of financial position:

a. *Trading securities.* Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) shall be classified as *trading securities.* Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price.
b. *Available-for-sale securities.* Investments not classified as trading securities (nor as held-to-maturity securities) shall be classified as *available-for-sale securities.*

Reporting Changes in Fair Value

13. Unrealized **holding gains and losses** for trading securities shall be included in earnings. Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) shall be excluded from earnings and reported in other comprehensive income until realized except as indicated in the following sentence. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a

fair value hedge shall be recognized in earnings during the period of the hedge, pursuant to paragraph 22 of Statement 133. Paragraph 36 of FASB Statement No. 109, *Accounting for Income Taxes,* provides guidance on reporting the tax effects of unrealized holding gains and losses reported in other comprehensive income.

14. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all three categories of investments in securities shall continue to be included in earnings. This Statement does not affect the methods used for recognizing and measuring the amount of dividend and interest income. Realized gains and losses for securities classified as either available-for-sale or held-to-maturity also shall continue to be reported in earnings.

Transfers between Categories of Investments

15. The transfer of a security between categories of investments shall be accounted for at fair value.[3] At the date of the transfer, the security's unrealized holding gain or loss shall be accounted for as follows:

a. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will have already been recognized in earnings and shall not be reversed.
b. For a security transferred into the trading category, the portion of the unrealized holding gain or loss at the date of the transfer that has not been previously recognized in earnings shall be recognized in earnings immediately.
c. For a debt security transferred into the available-for-sale category from the held-to-maturity category, the unrealized holding gain or loss at the date of the transfer shall be reported in other comprehensive income.
d. For a debt security transferred into the held-to-maturity category from the available-for-sale category, the unrealized holding gain or loss at the date of the transfer shall continue to be reported in a separate component of shareholders' equity, such as accumulated other comprehensive income, but shall be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. The amortization of an unrealized holding gain or loss reported in equity will offset or mitigate the effect on interest income of the amortization of the premium or discount (discussed in footnote 3) for that held-to-maturity security.

Consistent with paragraphs 7–9, transfers from the held-to-maturity category should be rare, except for transfers due to the changes in circumstances identified in subparagraphs 8(a)–8(f). Given the nature of a trading security, transfers into or from the trading category also should be rare.

Impairment of Securities

16. For individual securities classified as either available-for-sale or held-to-maturity, an enterprise shall determine whether a decline in fair value below the amortized cost basis is other than temporary. (If a security has been the hedged item in a fair value hedge, the security's "amortized cost basis" shall reflect the effect of the adjustments of its carrying amount made pursuant to paragraph 22(b) of Statement 133.) For example, if it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred.[4] If the decline in fair value is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss). The new cost basis shall not be changed for subsequent recoveries in fair value. Subsequent increases in the fair value of available-for-sale securities shall be included in other comprehensive income pursuant to paragraph 13; subsequent decreases in fair value, if not an other-than-temporary impairment, also shall be included in other comprehensive income.

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[3]For a debt security transferred into the held-to-maturity category, the use of fair value may create a premium or discount that, under amortized cost accounting, shall be amortized thereafter as an adjustment of yield pursuant to FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.*

[4]A decline in the value of a security that is other than temporary is also discussed in FSP FAS115-1 and FAS124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," AICPA Statement on Auditing Standards No. 92, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities,* and in SEC Staff Accounting Bulletin No. 59, *Accounting for Noncurrent Marketable Equity Securities.*

Financial Statement Presentation

17. An enterprise shall report its investments in available-for-sale securities and trading securities separately from similar assets that are subsequently measured using another measurement attribute on the face of the statement of financial position. To accomplish that, an entity shall either (a) present the aggregate of those fair value and non-fair-value amounts in the same line item and parenthetically disclose the amount of fair value included in the aggregate amount or (b) present two separate line items to display the fair value and non-fair-value carrying amounts. An enterprise that presents a classified statement of financial position shall report individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities as either current or noncurrent, as appropriate, under the provisions of ARB No. 43, Chapter 3A, "Working Capital—Current Assets and Current Liabilities."[5]

18. Cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities shall be classified as cash flows from investing activities and reported gross for each security classification in the statement of cash flows. Cash flows from purchases, sales, and maturities of trading securities shall be classified based on the nature and purpose for which the securities were acquired.

Disclosures

19. For securities classified as available-for-sale, all reporting enterprises shall disclose the aggregate fair value, the total gains for securities with net gains in accumulated other comprehensive income, and the total losses for securities with net losses in accumulated other comprehensive income, by major security type as of each date for which a statement of financial position is presented. For securities classified as held-to-maturity, all reporting enterprises shall disclose the aggregate fair value, gross unrecognized holding gains, gross unrecognized holding losses, the net carrying amount, and the gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities, by major security type as of each date for which a statement of financial position is presented. In complying with this requirement, financial institutions[6] shall include in their disclosure the following major security types, though additional types also may be included as appropriate:

a. Equity securities
b. Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies
c. Debt securities issued by states of the United States and political subdivisions of the states
d. Debt securities issued by foreign governments
e. Corporate debt securities
f. Mortgage-backed securities
g. Other debt securities.

20. For investments in debt securities classified as available-for-sale and separately for securities classified as held-to-maturity, all reporting enterprises shall disclose information about the contractual maturities of those securities as of the date of the most recent statement of financial position presented. Maturity information may be combined in appropriate groupings. In complying with this requirement, financial institutions shall disclose the fair value and the net carrying amount (if different from fair value) of debt securities based on at least 4 maturity groupings: (a) within 1 year, (b) after 1 year through 5 years, (c) after 5 years through 10 years, and (d) after 10 years. Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed.

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[5]Chapter 3A of ARB 43 indicates in paragraph 4 that "the term *current assets* is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business." That paragraph further indicates that the term also comprehends "marketable securities representing the investment of cash available for current operations." Paragraph 5 indicates that "a one-year time period is to be used as a basis for the segregation of current assets in cases where there are several operating cycles occurring within a year."

[6]For purposes of the disclosure requirements of paragraphs 19 and 20, the term *financial institutions* includes banks, savings and loan associations, savings banks, credit unions, finance companies, and insurance companies, consistent with the usage of that term in AICPA Statement of Position 90-11, *Disclosure of Certain Information by Financial Institutions About Debt Securities Held as Assets*.